

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58255

ISLAND COUNTY COMBINED SPECIAL PURPOSE DISTRICTS

Island County, Washington

January 1, 1993 Through December 31, 1995

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ISLAND COUNTY COMBINED SPECIAL PURPOSE DISTRICTS
Island County, Washington
January 1, 1993 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Boards of Commissioners
Island County Combined Special Purpose Districts
Island County, Washington

We have audited the financial statements, as listed in the table of contents, of the Island County Combined Special Purpose Districts, Island County, Washington, as of and for the fiscal years ended December 31, 1995, 1994, and 1993, and have issued our report thereon dated March 26, 1997.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the districts complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the districts' management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the districts and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the districts complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted instances of noncompliance of regulatory requirements immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the districts had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the boards of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

ISLAND COUNTY COMBINED SPECIAL PURPOSE DISTRICTS
Island County, Washington
January 1, 1993 Through December 31, 1995

Schedule Of Findings) Juniper Beach Water District

1. District Officials Should Enforce Collection Of Water Connection Charges

Our tests of district customer accounts receivable records disclosed that district officials are not enforcing the collection of water connection charges as required by statute. We found that, as of March 7, 1997, there were approximately thirty accounts with unpaid balances totaling \$10,000 from 1996 and 10 accounts totaling \$4,000 going back as far as 1993.

RCW 57.08.080 states:

The commissioners shall enforce collection of the water connection charges and rates and charges for water supplied against property owners connecting with the system and/or receiving such water, such charges being deemed charges against the property served, by addition of penalties of not more than ten percent thereof in case of failure to pay the charges at times fixed by resolution. The commissioners may provide by resolution that where either water connection charges or rates and charges for water supplied are delinquent for any specified period of time, the district shall certify the delinquencies to the treasurer of the county in which the real property is located, and the charges and any penalties added thereto and interest thereon at the rate of not more than eight percent per year shall be a lien against the property upon which the service was received, subject only to the lien for general taxes.

RCW 57.08.090 states in part:

The district may, at any time after the connection charges or rates and charges for water supplied and penalties are delinquent for a period of sixty days, bring suit in foreclosure by civil action in the superior court of the county in which the real property is located . . . In addition to the right to foreclose provided in this section, the district may also cut off all or part of the service after charges for water supplied are delinquent for a period of sixty days.

Officials have not enforced collection of charges because improvements funded by the charges have been delayed due to various external factors.

Failure to assess late payment penalties and interest on outstanding balances results in a financial loss to the district and weakens the district's legal status for the enforcement and collection of late water usage payments.

We recommend that district officials enforce collection of water connection charges.

2. District Officials Should Improve Control Over Cash And Investments

During our review of district cash receipts, disbursements, and balances, we found that district officials do not maintain a record of the district's cash or investment balances, but they rely on reports received from the Island County Treasurer's and Auditor's Offices. District revenues, expenditures, and cash and investment balances are not reconciled to the county's records on a periodic basis. Washington State statutes and good internal control, require maintaining records of financial activity and the performance of periodic reconciliations.

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments which shall be uniform for every public institution, and every public office . . . The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept or required to be kept, necessary to isolate and prove the validity of every transaction

According to the American Institute of Certified Public Accountant's *Statement on Auditing Standards* No. 78) Consideration of Internal Control in a Financial Statement Audit, internal control is a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with laws and regulations.

As a result of not maintaining district records of cash and investment balances or reconciling the balances and activity to the county's records, errors or irregularities could occur which might not be detected on a timely basis.

Officials did not maintain these records or perform reconciliations because they were not aware of the requirements.

We recommend that district officials improve control over cash and investments. Specifically, we recommend that a record be maintained of the district's cash and investment balances and activity and that this record be reconciled to reports received from Island County on a monthly basis.

Auditee's Response

Thank you for providing the copy of the preliminary draft of the Auditor's Findings for our review.

We appreciate the thoroughness of your Audit and your interest in both reviewing with us the applicable regulations governing District operations and explaining the options available to us in meeting these obligations.

The Commissioners share your concern with regard to the extended delinquencies reflected in the District's accounts receivables. To address this concern the Board in 1994 requested pursuit of new billing procedures which would enable greater oversight of delinquent accounts. These new procedures

whose installation began in the summer of 1995 are, after several extensive delays beginning with a fire in the fall of 1995, now implemented.

This new computer generated billing program enables the aging of delinquent accounts which will be reviewed by the Board at each regularly scheduled public meeting. As a result of this visibility and in deference to financial impacts resulting from District billing delays, it is the Board's intent to pursue collection of such delinquent accounts in accordance with those options set forth in State Law.

In considering your findings with regard to improved control over cash and investments it should be noted that although unaware of specific requirements it was in part the Board's concern in this area which led to the decision to proceed with the Quickbook computer accounting system. It was felt that this system could provide the oversight required for both the District's accounts receivable and District operations. However until such system is fully implemented on the computer and in support of such program the District is, as suggested, implementing a ledger control system to improve internal control and enable periodic reconciliation with the County records in both the Auditor's office and the Treasurer's office.

It is sincerely hoped that these improvements will address the concerns of the Auditor's Office. Again I would like to thank you and your office for your patience, your professionalism and most important your help and suggestions in assuring that our District complies with statutory requirements and protects the investments and rights of residents and property owners within the District.

Auditor's Concluding Remarks

We would like to thank the district's management for its response to our report finding. Based upon the response, we feel that the issues delineated in our report are being addressed. We will review this area in our subsequent audit.

We would also like to take this opportunity to express our appreciation for the assistance and cooperation we received throughout the audit.

ISLAND COUNTY COMBINED SPECIAL PURPOSE DISTRICTS
Island County, Washington
January 1, 1993 Through December 31, 1995

Independent Auditor's Report On Financial Statements

Boards of Commissioners
Island County Combined Special Purpose Districts
Island County, Washington

We have audited the Schedule of Cash Activity, Schedule of Investments, and Schedule of Long-Term Debt, of the various funds of those special purpose districts of Island County, Washington, listed in the financial statements, for the fiscal years ended December 31, 1995, 1994, and 1993. These financial statements are the responsibility of the districts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, Island County prepares financial statements on behalf of the districts on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A substantial portion of the revenues of the water districts consists of locally collected charges and fees. It was not practicable to satisfy ourselves with respect to these revenues beyond the amounts recorded by the county as received.

In our opinion, except for the effect, if any, of the matters discussed in the preceding paragraph, and except that omitted disclosures might influence a user's conclusions about the districts' transactions, the accompanying financial statements present fairly the cash and investment transactions and the long-term bonded indebtedness of the funds of the listed districts for the fiscal years ended December 31, 1995, 1994, and 1993, on the prescribed basis of accounting.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997